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SUBJECT: CROATIA: SCENESETTER FOR CODEL TANNER

¶1. You are coming to Croatia just six weeks after the formation of Prime Minister Ivo Sanader's second government, as he and other leaders look ahead to NATO's Bucharest Summit. After encouraging feedback from NATO allies during the January review of Croatia's progress under the Membership Action Plan, the PM is confidently anticipating a membership invitation in April. Accession to NATO represents a tremendous step forward for this young nation as it takes its place among the democratic, free-market countries of Europe with a level of freedom, security, and prosperity that were unimaginable fifteen years ago. Just beginning a two-year term on the United Nations Security Council and hoping to conclude accession negotiations with the European Union in 2009, the Croatian Government sees itself as a leader in southeastern Europe, ready to promote regional stability and to help integrate its neighbors into the Euro-Atlantic community.

GLOBAL CONTRIBUTOR TO STABILITY AND SECURITY

¶2. Just a decade ago, Croatia was a consumer of international security resources, with U.N. forces ensuring the peaceful reintegration of the eastern Slavonian region after the disintegration of the former Yugoslavia. Today, Croatia is an exporter of stability, both in the region and globally:
- as a strong, active partner in the Adriatic Charter with Albania and Macedonia, promoting democratic and defense reforms on the road to NATO integration;
- as a provider of soldiers and police to 11 UN peacekeeping missions from Kosovo to East Timor;
- as a solid contributor to NATO operations, with a 200-troop ISAF contingent in Afghanistan (set to grow to 300 by the end of 2008), and liaison officers involved in Operation Active Endeavor, NATO's counterterrorism mission in the Mediterranean;
- as a host of NATO exercises, including NATO amphibious landing and civilian disaster response exercises in 2007 that were the largest ever held in a non-member state.

¶3. Croatia's constructive engagement within the region continues to be one of its greatest contributions to stability. During its chairmanship of the South East European Cooperation Process in the first half of 2007, Croatia led the formation of a permanent Regional Cooperation Council based in Sarajevo. We have also had an increasingly productive dialogue with Croatian leaders on southeastern Europe's "unfinished business" in Bosnia and Herzegovina and Kosovo. Relations with Serbia remain sensitive, but President Stjepan Mesic and Prime Minister Sanader both have good relations with their counterparts in Belgrade and firmly support Serbia's future in Europe and NATO.

PROMOTING PUBLIC SUPPORT FOR NATO MEMBERSHIP

¶4. Local public support for NATO accession has been a key concern among allies during Croatia's candidacy, but poll numbers show steady growth in favor of membership and the Sanader government is re-doubling its efforts to educate the public prior to Bucharest.

Thanks to previous government outreach and U.S. Embassy-support NGO programs, all recent surveys show support ranging from 51 to 54 percent, with opposition fluctuating around 30 percent.

¶ 15. Over the past year, the government has succeeded in countering several misconceptions about Alliance membership (i.e. the myth that NATO wants to build naval bases on the Croatian coast or force Croatia to send troops wherever the U.S. directs). In fact, the government plans nationwide outreach activities during the coming weeks to solidify support to help ensure an invitation in April. The Embassy has provided support to a number of key NGOs which are also engaged in educating the Croatian public about what it means to be a member of NATO. This effort has contributed to our goal of ensuring that Croatia will become an active and capable member of the Alliance.

COMMITMENT TO DEMOCRATIC VALUES

¶ 16. Croatia's democratic reforms have been another focus of its NATO accession process. In all key areas, including judicial reform, fighting crime and corruption, and the return of refugees, the Government has achieved concrete progress which paved the way for the closure of the OSCE mission at the end of 2007.

¶ 17. While the judiciary remains an area for further reforms and the public still perceives it as one of the country's main sources of corruption, we have nevertheless witnessed steady progress. Court backlogs have shrunk 30 percent in the past two years, and improvements in court administration are expected to speed up the process. The Ministry of Justice is actively improving the training of judges and supervision of judicial administration, and Croatian courts are trying war crimes cases involving defendants of all ethnicities in a fair manner, including high-profile cases transferred from The Hague Tribunal.

¶ 18. Croatia's steady implementation of its National Strategy to Combat Organized Crime and Corruption is yielding results. The government has established police and prosecutor task forces to combat organized crime and has begun freezing assets in narcotics cases. The Office for the Suppression of Corruption and Organized Crime conducted three high-profile stings in the past six months, leading to 36 arrests of government officials and private citizens for corruption related to privatization, land registry, and the issuance of building permits.

¶ 19. On refugee returns, Croatia has welcomed back more than 125,000 refugees of Serb ethnicity, and the Government has largely completed its programs of home repossession and reconstruction, infrastructure development. It has also begun housing programs for former tenants of socialized apartments. However, assisting this category of returnees and addressing issues related to pensions of those who worked in former Serb-held territories during the war will remain a long political and budgetary challenge.

DEFENSE MODERNIZATION: BECOMING A CAPABLE ALLY

¶ 10. The Croatian military has nearly completed its restructuring in line with NATO standards, and is now focused on modernization and deployability as outlined in the Ministry of Defense's Long Term Development Plan (LTDP) for the Croatian Armed Forces. Defense spending is set to rise to two percent of GDP by 2010, and reductions in personnel costs are beginning to make room in the budget for major equipment modernization. The military completed a tender for armored personnel carriers in 2007 and plans to pursue purchase of advanced fighter aircraft and coastal patrol vessels in the coming years.

STEADY GROWTH, BRIGHT FUTURE

¶ 11. Croatia's economy has enjoyed steady growth since 2000, led by strong tourism receipts (tourism makes up 20% of GDP), a buoyant construction industry and growing mortgage and consumer lending. Although Croatia has grown at a slower rate than other economies in Central and Eastern Europe, early 2007 figures showed the economy growing at a brisk 6.9 percent. Although Croatia's per capita GDP

of \$9,000 is high by regional standards and is reflected in a relatively high standard of living, fast growth rates will be essential to closing the gap between Croatia and its wealthier western European neighbors.

I12. EU accession talks, opened in 2005, brought new confidence in Croatia's economic future, particularly as the Government was forced to implement long-overdue reforms. While more remains to be done to improve transparency, fight corruption, and reduce the overly-large state role in the economy, Croatia is emerging as an attractive place for foreign investment with its growing economy, low inflation, stable exchange rate, and developed infrastructure.

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